international business aviation council

Business aviation outlook 2002

– time to put our thinking cap on

Introduction

Good morning ladies and gentleman. I very much appreciate your invitation to the 2002 General Aviation Forecast Conference. You have an interesting program -- an interesting program for an interesting time in our aviation history.

I had to give some serious second thought to my presentation this morning - not because I have not presented at forecasting venues in the past, but because, as we all have heard repeatedly since September 11, the world has changed. We have heard over and over again that travel will be different, that it will not be easy.

What will be the long-term impact of the security crisis on general aviation? I use the future tense intentionally, as we all know the actual impact over the last months, but what are the long-term prospects?

My crystal ball is rather hazy – the future is not quite as clear as it might have been. However, there is a lot churning around in there, and I am sure the ball will gradually clear and open on a bright picture of the future.

This morning I will present our updated forecast for business aircraft . However, more importantly, I will try to summarize the current pressures, both upward and downward, on business aviation.

Interesting times have raised interesting challenges. The future of business aviation can, to a large degree, be guided by the industry. In ten years from now, if we look back, we likely will conclude that the years 2001 to 2003 were pivotal years in the evolution of business aviation.

IBAC

Perhaps the first thing I should do is provide a little background on IBAC as I am sure there are a few of you not familiar with the International Business Aviation Council. IBAC is a council of national and regional associations, such as the National Business Aviation Association in the United States. IBAC was formed over 20 years ago to represent business aviation at the international level.

IBAC offices are in Montreal Canada, in the headquarters building of the International Civil Aviation Organization (ICAO). There is a reason for this, as ICAO is the United Nations special agency responsible for setting the policy, standards and recommended practices for aviation worldwide. This is the nerve centre for coordinating the world ‘s airspaces and for setting safety and security standards. It is at ICAO that we can best represent business aviation, where we can help in the design of new procedures and standards. We also represent business aviation at other international forms and help business aviation tackle local issues where national associations are not able to do so.

IBAC actively encourages harmonization of operational rules and safety requirements. We continuously promote acceptance by States around the world of ICAO standards and recommended practices for their safety and cost-effectiveness benefits.

IBAC contributes in other ways to facilitating business aviation operations, one example being the aircrew identification card. Designed to meet ICAO Annex 9 requirements, the Aircrew Identification Card has become well known in the industry for assisting aircrew access. We are also working with ICAO on a concept for a universal international design for aircrew identity cards.

Responding to our number one priority of safety, IBAC, in partnership with our member associations, has developed an operational standard. The International Standard for Business Aircraft Operations (IS-BAO) is an industry standard, developed for the benefit of the industry. It is a ‘code of best practice’ developed through a series of focus groups over a two years development program.

IS-BAO provides the mechanism for flight departments to benefit from good practices of others. It will help new flight departments. It will help the growing companies and will help companies move to larger inter-continental aircraft.

IS-BAO will also help regulators, as it promotes a harmonized operational standard. We are encouraging adoption of the standard worldwide and encouraging regulators to take note of harmonized safety practices developed and maintained by the industry.

Likely of significant benefit, is that the standards will give company boards of directors confidence that their flight departments are being operated to an acceptable standard. Executives worldwide generally understand the value of recognized international standards.

Prognosis

Forecasting the future of business aviation has not really been a strong point for IBAC. We would rather help influence its growth by helping to smooth the waters – to make the path clearer, a path with less resistance.

Nevertheless, we have in the past looked into the waters and tried to forecast growth. We will continue to do so; although, for the reasons mentioned, the numbers are more fluid these days.

It is also important to note that our forecasts have always been based on data obtained from manufacturers, such as Honeywell, who clearly make an art of forecasting in their respective area, rather than the wild, but intelligent, guessing of IBAC.

I have heard some in the industry say that our forecasts are conservative. I agree. However, because of that I feel confident that we won't fall short

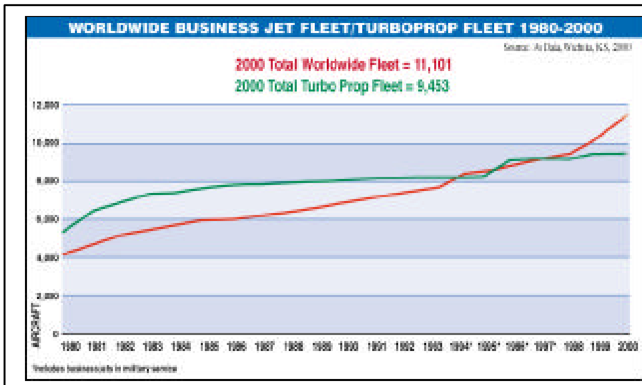
First, what is the global picture of business aviation today?

Total Aircraft – Over 21,000;

Jet Aircraft – Over 11,100;

Business aircraft operators – 13,000;

There has also been a relatively steady year over year increase.



You may also be interested in seeing the undeniably dominant position of the United States in the global aviation fleet.

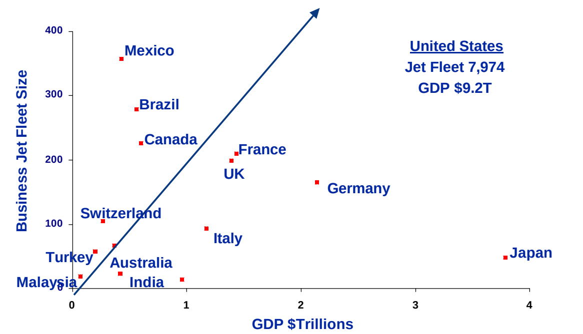
Wthout doubt, the productivity benefits of business aviation have been recognized in the U.S. more so than any other nation.

Largest Business Aviation Countries

United States	14,079
Brazil	667
Canada	656
Mexico	540
France	431
Germany	378
Venezuela	288
United Kingdom	283
South Africa	247
Argentina	216
Australia	213

In my opinion, general aviation has flourished in the U.S. because it has been by far the most aviation friendly country in the world -- but will this continue through the end of the security crisis?"

The number of jet aircraft related to the GDP in the U.S. out-paces by far all other countries. What is the prospect of other countries taking up on the productivity values of company aircraft and moving up the graph. These numbers, courtesy of Gulfstream, show the potential for growth. Of course it is not practical to think only in terms of GDP, as the potential of business aviation is driven by so many things – not the least of which is geographical size of the nation.



Growth Potential of Business Jet Fleet Growth

This slide shows the ten-year forecast for jet aircraft.

Again, I emphasize, our numbers are really no better than the forecast of the large organizations that make their money from selling hardware. We used these to develop our own conservative outlook.

Jet Aircraft Prognosis 2002

2002	600
2003	620
2004	640
2005	640
2006	640
2007	650
2008	660
2009	660
2010	680
2011	680
10 yr total	6,470

Pressures

I said at the beginning, we live in interesting times. Questions remain unanswered. The response will dramatically influence the future health of general aviation; many of these pressures can be shaped, so it will our job to promote positive results, where possible. We can only cross our fingers when the pressures are beyond our control.

I can think of 15 influencing pressures that will impact business aviation growth. Many of these pressures are beyond the control of business aviation. In general, the 15 pressures start with those we will have trouble influencing, gradually moving towards pressures over which we can influence.

1. Health of the world's economies

It is clear that the recession experienced in most countries has resulted in softening of new aircraft sales, as expected. However, I have watched the results with interest, related to historical data developed by Gulfstream, which shows the impact of recessions over the years on aircraft sales. I believe we are seeing a continuation of the pattern, as the recession has had a more significant impact on small and medium aircraft sales, but little impact on larger aircraft.

In most countries the recession was short and soft. Sales should be rejuvenated as economies rebound.

2. Continuing globalization

The business aircraft as a tool is most effective when corporations operate at many locations, when engineering teams, auditors and executives travel between sites. Globalization of the world's industries has had a positive influence on business aviation growth and we have seen a parallel increase in inter-continental jet aircraft. In fact, on the North Atlantic, at FL 410 and above, over 50 percent of the traffic is business aircraft.

Expansion of industrial globalization can only benefit the growth in numbers of inter-continental jet aircraft.

3. Industry focus on productivity

The business aircraft has become synonymous with productivity. The significant success of business aviation in the US can be partially attributed to the US industrial focus on productivity gain. Although I have not run the numbers, I have little doubt that we could show a correlation between a nations productivity measure versus the use of business aircraft. Productive companies recognize the productivity value of the aircraft. It follows that if other countries' industries were to focus on productivity, there would be a subsequent growth in aircraft use.

4 Company business plans

Another pressure over which we have little influence is the management and structure of corporations themselves. Benefits of an aircraft are dependent on how the company does business. The productivity value and importance of time management, the aggressiveness of the marketing, the dispersion of the manufacturing plants, the target of the sales program, amongst others, will directly impact the corporate decision to use a company aircraft. There is no reason to believe that business practices will change, so the key will be the aggressiveness of the business aviation community's marketing and selling of the benefits of business aviation.

5. Access to airports and airspace

The effectiveness of the business aircraft varies directly with the ability to fly where and when required. The flexibility of the aircraft is lost if access to the chosen airport is denied or if long waits are required to obtain an air traffic control clearance due to traffic congestion.

Increasingly, we are seeing localized imposition of airport restrictions, partly because of capacity, but more often due to noise, or intentional discrimination against private aircraft.

It is incumbent upon all of us to work hard to eliminate barriers to growth. All IBAC member associations are working hard on behalf of the community to ensure fair and equitable access. The NBAA has been fighting legal battles against locally imposed airport restrictions, the European associations are working with the European Community on slot regulations and IBAC has convinced ICAO to do a study on business aviation access to airports.

6. Airline route structures

As we all know, the recession and the security crisis have had a devastating impact on the airlines. Most have had to restructure route systems and downsize. The result is fewer city pairs and fewer municipalities served.

Companies rely heavily on commercial aviation to transport employees. Business aviation supplements this prime means of transportation, and when there is a decline in airline alternatives, the corporate aircraft must pick up the slack.

The bottom line is, any decrease in airline service of cities and city pairs will lead to an increase in business aircraft use.

7. Air traffic control efficiencies

Generally, the major capacity constraint has been at the runways. However, unlike the airlines, business aviation often has alternatives at regional, satellite or dedicated business airports, as long as access restrictions are not applied.

However, in the case of airspace, business aviation generally uses the same space as the airlines, and together we face capacity constraints.

It is clear that all air traffic control services are not created equally. Some countries are much better than others. Reasons for this include adequacy of equipment, training, procedures and management.

New efficiencies are being realized with the introduction of satellite navigation, data link communications and reduced vertical separation. However, new and progressively better equipment and procedures will be needed in the future if timely and flexible air travel is to continue to progress. Without it, sustained business aviation growth cannot be realized.

8. Security impacts

The security crisis has had a severe impact on all aviation sectors. The question is, “can we work through the crisis and exit positively at the other end?” You are aware of the severe restrictions placed on general aviation on Sept. 11. These have slowly been removed, but some still remain such as the freedom of non-U. S. registered aircraft entry into the U. S.

On Sept. 11 the U.S. government respondent correctly. Restrictions were right and they were justified. However, the follow-up has been laborious, without adequate consultation and has lacked, at times, a good measure of intelligence.

Worldwide, we still face a significant degree of DSS – the “do something syndrome”. We cannot change this. For governments, lack of action is tantamount to political suicide. Governments must be seen to do something in a crisis, whether following a terrorist act or large aircraft accident. The fatalistic claim from those of us in industry that “these things happen” will not work for government.

The challenge for all of us is to ensure that the “something” is the “right thing”. The industry is well placed to help find the right solution, responding both to the public need for action and yet facilitating safety, security and good operational practices.

It is incumbent on the business aviation community to work with security authorities to develop effective security standards and to actively participate in day-to-day management of security programs at airports. However, security standards for general aviation must be distinct from those of commercial aviation. The threat is different and the operations are different. They warrant a distinct program.

On the positive side, security problems encountered at the large air terminal buildings can, and are, having a direct upward pressure on business aviation growth. The long two hour waits in security lines at some major airport can have serious impacts on company productivity.

Security has always been a hallmark characteristic of business aviation. The excellent security record and good standards are now leading to more executives and boards of directors ruling that officers and directors must use the company aircraft. Some flight departments advise that they are flying twice as much since September 11. FBOs are telling us of very, very significant increases in business aircraft operations. Aircraft charters are up 25%. If this trend continues, our forecast for growth will have to be recalculated upwards.

9. Perception of safety

We all know that business aviation has an exemplary safety record – as good or better than any other aviation sector, including the major airlines. The problem is, this is not well known. We still encounter individuals at the senior level of civil aviation authorities who think the accident record for business aviation is not good. We have work to do, to clearly demonstrate business aviation's good safety record.

It is a question of confidence. Company boards of directors must see business aviation for its excellent safety standards. We are hoping that the IS-BAO standards will help. This performance based standard, not unlike the ISO 9000 series standards is a code of best practices that will help new and growing flight departments learn from the experiences of others. Registration to such a standard will demonstrate to boards of directors that the company satisfies a highly professional and recognized international standard.

10. New regulatory provisions

The growth and success of business aviation is increasingly resulting in attention by safety regulators. This is not necessarily the result of safety concerns, but more related to public accountability and economic balancing of the playing field.

In the US, the major thrust has been new Part 91 provisions for fractional ownership. In Europe, new regulations are being developed for corporate aircraft. In Canada the government is actually devolving regulatory authority to the Canadian Business Aviation Association (CBAA) through delegation of the power to issue private operator certificates. In Brazil, the whole aviation regulatory infrastructure is being changed. In all cases, aviation authorities are being open, and are fully consulting with the industry. The result in all cases, to date, has been positive.

Alternatively, customs regulations are generally not adequately consulted. The result has been a confusing myriad of different and not well-published rules that are having a negative impact on business aviation, particularly in Europe. For example, changes to customs codes that single out corporate aircraft as a commercial operation are having serious cabotage implications.

11. Fees, charges and taxes

Also influencing cost-effectiveness of business aviation is, and will continue to be, airport charges, terminal and en-route fees, fuel taxes, value added taxes, import and export taxes and other related costs. There is no harmonization between States on most of these charges. In many cases business aviation is paying heavily. Taxes often benefit commercial operations vs. private.

In general, charges for services in Asia have been astronomical in comparison with other constituencies. Fair and equitable charges and fees will have to improve in many countries if business aviation is to reach its potential.

12. Europe and Asia

Business aviation is strong and healthy in North America. In Central/South America, four countries are in the largest 10 business aircraft fleets of the world, so it would appear to be solid in the South.

However, in Europe and Asia, business aviation is not utilized to its potential. Although Europe has a major position in the world's economic and corporate infrastructure, business aircraft in Europe only represent 10% of the global fleet.

In Asia, the political and economic realities have restrained growth. Fees and charges have tended to be very high. However, there appears to be a resurgence of interest. New business aviation associations in Japan and the Asian Region are active and helping to foster improved access with more realistic charges and fees. Certainly, Asia is seen as an area for potential significant increases in business aviation in the near future.

13. Success of a fractional ownership

Fractional ownership programs have a had a substantial impact over the past decade, as you are well aware. The future of such programs will continue to have an impact on business aviation growth. Fractional programs have an impact in two ways; one by directly attracting new ownership and secondly, there is a potential for the new owners to eventually move to full ownership.

However, there remain hurdles to long-term effectiveness of fractional programs, not the least being the differences in approach to regulation in various corners of the world and the direct impact of how this will affect customs and cabotage regulations.

14. Clear view of business aviation benefits

Another pressure on future growth will be the clarity with which industry sees the benefits of operating business aircraft. Those of you in this room know the productivity benefits of business aircraft, but how widespread is that knowledge in the business world. The ability of the business aviation community, the manufacturers, the associations and service providers, to promote the industry and clearly show the benefits, will help guide future growth.

15. Association effectiveness

Last, business aviation associations can help business aviation growth by promoting safety and security, fair and equitable access and fair fees and charges. Representative bodies can also assist in marketing business aviation to the world industries. Associations have the ability and mandate to provide leadership in shaping business aviation for the future and helping industries to understand the benefits.

Conclusion

In summary, there are many immediate and long-term pressures that have the potential of pushing business aviation rapidly ahead or squeezing it like vice.

As indicated, many of the pressures are beyond our control but others are within our grasp. Overall, I believe there is great potential for business aviation to grow at a rate faster than we have seen in the past. The next few years will be telling, and likely will be viewed as pivotal years in the history of business aviation.